A Sub-Fund of Morgan Stanley Investment Funds

Indian Equity Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the one month period ending 31 December 2025, the Fund's I shares returned -1.02% (net of fees)[1], while the benchmark returned -0.49%.

During December 2025, Indian equities were broadly flat. The Indian rupee depreciated by -0.5% against the U.S. dollar, and Brent crude ended the month lower, marking its steepest annual decline since 2020. The Reserve Bank of India (RBI) cut the repo rate by 25 basis points to 5.25%, maintaining a neutral stance and injecting liquidity to stabilise money markets. Foreign institutional investors (FIIs) were net sellers of $2.6 billion, while domestic institutional investors (DIIs) continued to provide support through sustained inflows of $8.8 billion.[2] On a full-year basis, FIIs recorded their highest annual outflows of $18.8 billion, while DIIs saw record inflows of $90.3 billion.

At the sector level, our stock selection in the financials sector contributed positively to relative performance, driven by overweight positions in select non-bank financial companies. Our overweight selection to the communication services sector also contributed to returns, supported by exposure to Bharti Hexacom. In contrast, our stock selection in and underweight allocation to the information technology sector detracted. Our stock selection in and underweight allocation to the materials sector also weighed on performance. Our stock selection in the health care sector was negatively impacted by our hospital names.

Our overweight selection to Shriram Finance contributed to relative performance as the stock rose, supported by robust credit growth and news of a potential strategic investment by MUFG, which reinforced confidence in the non-bank financial sector. MUFG's acquisition of a 20% stake in Shriram marks one of the largest foreign direct investment deals in India's financial services sector. Management has also announced that borrowing costs are expected to decrease by approximately 100 basis points over the next two years, driven by rating upgrades, repricing of capital market borrowings and anticipated RBI rate cuts.

Our overweight selection to MakeMyTrip contributed to relative returns, driven by strong travel demand during the festive season and increased winter bookings, reflecting buoyant consumer sentiment. The company also benefited from structural tailwinds in online travel penetration and positive sentiment following better-than-expected quarterly results, which highlighted margin improvements and robust forward bookings.

Our overweight selection to Eternal Ltd detracted as the stock fell due to weak quarterly results and margin pressures amid rising input costs. Investor sentiment was further dampened by cautious management commentary on near-term demand trends, leading to a sharp correction in the stock price. Intense competition in online grocery delivery has led to heavy discounting, raising doubts about the profitability of these firms.

Our overweight selection to Coforge also detracted from relative returns on concerns over slowing IT spending and project delays in key geographies. We believe Coforge remains well positioned in niche IT services, with strong digital transformation and cloud migration capabilities. These factors support its long-term growth prospects despite near-term volatility in client budgets.

Market Review

The MSCI India Index fell by -0.5%, underperforming the MSCI Emerging Markets Index, which rose +3.0%, in U.S. dollar terms. The S&P BSE Sensex declined by -0.6%, while the S&P BSE Midcap Index declined by -0.5%, both outperforming the S&P BSE SmallCap Index, which fell by -1.0% during the month. The MSCI India Growth Index declined by -1.6%, underperforming the MSCI India Value Index, which rose +0.6%.

Foreign institutional investors resumed selling $2.6 billion, while domestic institutional investors continued their buying trend with inflows of about $8.8 billion. Systematic investment plan inflows remained robust at $3.3 billion.[2]

In December, the rupee depreciated further by -0.5% against the U.S. dollar and depreciated by -1.9% against the euro during the month.[3]

Following a -1.3% dip in November, oil prices fell by -3.0% in December on rising global inventories.[4]

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[1] Source: Morgan Stanley Investment Management. Data as of 31 December 2025.
[2] Source for all India flows data: National Securities Depository Limited and Association of Mutual Funds in India. Data as of December 2025.
[3] Source: J.P. Morgan – India Equity Strategy, published 1 December 2025.
[4] Source: Oil prices from Bloomberg L.P., based on Indian Basket of Crude Oil Prices Daily Index, which measures the price of crude oil imports in India.

Portfolio Activity

During the month, we initiated a position in Meesho through its initial public offering. Meesho is a value-commerce platform that focuses on social commerce, spanning various categories such as fashion, home essentials and beauty. We believe the company can benefit from a shift in consumption from unorganised to organised retail and the increasing consumption trends in tier 2 and beyond towns. With approximately 234 million annual transacting customers,[5] Meesho has established a strong hold in the value e-commerce segment. The platform optimises for price and we believe can continue to see lowering of average order values, providing a customer funnel for the value price segment.

Strategy and Outlook

High-frequency indicators for December showed continued resilience in domestic demand, supported by festive season tailwinds and policy measures. Passenger vehicle retail sales rose sharply by 16.7% year-on-year, while two-wheeler retail sales increased by 6.8%, indicating sustained momentum in discretionary spending. Credit growth strengthened further, with overall bank credit expanding 12.0% year-on-year, driven by broad-based improvement across personal loans and industrial lending.[6]Digital transactions and credit card spends also remained robust, reflecting healthy consumer activity during the holiday period.

Goods and services tax (GST) collections edged down slightly to 1.75 trillion rupees in December, with the year-on-year growth rate rising to 6.1% from 3.6% in November.[6] The manufacturing PMI softened to 55.0 from 56.6 in the previous month, driven by weaker production due to a slower uptick in new orders. In contrast, the services PMI softened to 58.0 from 59.8, led by slower uptick in new orders.[6]

Headline inflation in December rose to a three-month high of 1.3% year-on-year, compared to 0.7% in November, primarily driven by food prices, which saw sequential gains across categories such as cereals, pulses and vegetables.[7] The headline consumer price index (CPI) print for December came in lower than expected due to base effects. Fuel inflation softened to 2% year-on-year. Core inflation, which excludes food and fuel, rose to 4.7%, while the narrower measure excluding gold and gasoline stayed at 2.4%.

India closed 2025 with a macro backdrop that was more stable than headlines suggested, supported by a decisive pivot in monetary policy and resilient high-frequency indicators. The December monetary policy committee meeting – which cut the policy repo rate by **25 basis points to 5.25%** – signalled confidence that inflation had decisively rolled over, with both headline and core-core components consistently undershooting expectations. We believe that the growth in the first half of this fiscal year has been buoyed by stimulus provisions, but also that we could see some moderation in growth in the near term, which is slowing the transmission from an easier monetary policy. Liquidity conditions fluctuated sharply through the month – swinging from a **surplus of 1.7 trillion rupees in the beginning of December** to a **deficit of 716 billion rupees by month-end** as advance taxes went out[8] – reinforcing the RBI's guidance that durable liquidity injections will be deployed in early 2026 to stabilise market conditions.

We are seeing early signs of credit growth momentum with selective pockets seeing sequential improvement, backed by supportive deposit growth. Industrial production rose after the festive season, and manufacturing output and passenger vehicle production remains strong, which indicates transmission of easier monetary policy is happening, albeit slowly. Rural wages, on the other hand, are still showing mixed signs, partially impacted by weak food inflation. However, we believe food inflation has likely hit its trough and, with base effect dynamics, should inflect soon. This, combined with the government's renewed emphasis on consumption, should provide support for rural wage growth. As a result, we remain invested in what we believe are cyclically beneficial consumer and financials companies that show earnings visibility and valuation comfort.

As we have previously noted, corporate earnings appear to be bottoming out after a challenging fiscal year 2025, and with inflation benign and easy interest rates, operating leverage can re-emerge in this fiscal year, strengthening the earnings breadth that has been previously lacking. However, in the near term, we continue to expect volatility stemming from ongoing geopolitical challenges and the impact of U.S.-imposed tariffs on exports, which are also weighing on the currency. We continue to believe in reforms being undertaken to strengthen India's position in global manufacturing. While we remain cautious on exporters given the global backdrop, we see selective opportunities in segments such as electronics, pharmaceuticals and specialty chemicals as longer-term beneficiaries of India's manufacturing push.

For further information, please contact your Morgan Stanley Investment Management representative.

Fund Facts

Launch date	30 November 2006
Base currency	U.S. dollars
Benchmark	MSCI India (Net) Index

5 Source: Morgan Stanley - Meesho Limited: E-commerce at Scale and Speed, published 14 January 2026.
6 Source: Source for credit growth, GST and PMI data: Morgan Stanley – India Economics: India Trendspotting, published 3 December 2025.
7 Source: Source for CPI data: Morgan Stanley – India Economics, published 12 December 2025.
8 Source: Reserve Bank of India and Jefferies - India Financial Daily, 11 December 2025 and 30 December 2025.

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class I Shares	-1.91	-1.91	22.68	21.22	-9.91	32.41	8.79	1.90	-20.24	41.65	2.69
MSCI India (Net) Index	2.62	2.62	11.22	20.81	-7.95	26.23	15.55	7.58	-7.30	38.76	-1.43

All performance data is calculated NAV to NAV, net of fees, and does not take account of commissions and costs incurred on the issue and redemption of shares. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). **Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.**

Share Class I Risk and Reward Profile

- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.
- The fund relies on other parties to fulfill certain services, investments or transactions. If these parties become insolvent, it may expose the fund to financial loss.
- Sustainability factors can pose risks to investments, for example: impact asset values, increased operational costs.
- There may be an insufficient number of buyers or sellers which may affect the funds ability to buy or sell securities.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. The value of investments and the income from them can go down as well as up and investors may lose all or a substantial portion of his or her investment.
- The value of the investments and the income from them will vary and there can be no assurance that the Fund will achieve its investment objectives.
- Investments may be in a variety of currencies and therefore changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Furthermore, the value of investments may be adversely affected by fluctuations in exchange rates between the investor's reference currency and the base currency of the investments.

Please refer to the Prospectus for full risk disclosures, available at www.morganstanleyinvestmentfunds.com. All data as of 31.12.2025 and subject to change daily.

Applications for shares in the Sub-Fund should not be made without first consulting the current Prospectus and the Key Information Document ("KID") or Key Investor Information Document ("KIID"), which are available in English and in the language of countries authorized for fund distribution and is available online at Morgan Stanley Investment Funds Webpages or free of charge from the Registered Office at European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

The summary of investor rights is available in the aforementioned languages and website location under the General Literature section.

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The **MSCI Emerging Markets Net Index** is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets. The term “free float” represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The MSCI Emerging Markets Index currently consists of 24 emerging-market country indices. The performance of the index is listed in U.S. dollars and assumes reinvestment of net dividends. The index does not include any expenses, fees or sales charges, which would lower performance. The index is unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

The **S&P BSE SENSEX (S&P Bombay Stock Exchange Sensitive Index)** is a free-float market-weighted stock market index of 30 well-established and financially sound companies listed on Bombay Stock Exchange.

The **S&P BSE SmallCap Index** measures the small-cap segment of India’s stock market.

The **S&P BSE MidCap Index** measures the mid-cap segment of India’s stock market.

The **MSCI India Growth Index** captures large- and mid-cap securities exhibiting overall growth style characteristics in India, as defined by long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

The **MSCI India Value Index** captures large- and mid-cap Indian securities exhibiting overall value style characteristics, as defined by book value to price, 12-month forward earnings to price and dividend yield

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